

Publication pursuant to Article 25 (2), Article 28 (3) of Regulation (EU) 2017/459 (NC CAM) concerning the procedure initiated in 2021 for incremental capacity for the Border between Poland and Ukraine

28 April 2023

I. Introduction

After the completion of phase 1 of the procedure initiated in 2021 in accordance with Regulation (EU) 2017/459 (Network Code on Capacity Allocation Mechanisms for Transmission Networks; hereinafter "NC CAM") for the identification of market interest for the creating of incremental capacities at the market area border between Poland and Ukraine, the participating transmission system operators (hereinafter "TSOs") carried out the planning phase for the corresponding projects (phase 2) and concluded it with the consultation in March 2022. The technical studies have presented how the network expansion can be carried out efficiently, taking into account the corresponding network topology as well as economic aspects. On 14 November 2022 Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A. (hereinafter "GAZ-SYSTEM") and on 19 October 2022 LLC „Gas Transmission System Operator of Ukraine” (hereinafter "GTSOU") have therefore submitted the project applications to the national regulatory authorities in Poland and Ukraine respectively.

The Polish project application was approved and the decision DRR.WRG.745.6.2022.MJS was issued¹ on the 28 April 2023 by the Energy Regulatory Office (URE).

The Ukrainian project application was approved and the resolution № 799 issued² on 28 April 2023 by National Energy and Utilities Regulatory Commission (NEURC).

¹ URE Decision: <https://www.ure.gov.pl/pl/paliwa-gazowe/europejski-rynek-gazu-1/decyzje/11073,Decyzja-Prezesa-Urzedu-Regulacji-Energetyki-z-28-kwietnia-2023-r.html>

² NEURC Resolution: <https://www.nerc.gov.ua/acts/pro-pogodzhennya-proyektu-propozicij-zi-zbilshennya-potuzhnosti-gazotransportnoyi-sistemi-u-tochci-vhodu-na-mizhderzhavnomu-zyednanni-z-polshcheyu>

Publication acc. Art. 28 (3) NC CAM

II. Permit contents acc. Art. 28 (1) NC CAM

a. Offer-level acc. Art. 28 (1) lit. a NC CAM

In the annual auction on the 3rd of July 2023, the participating TSOs will offer the common Offer Level for bundled capacity products at GCP GAZ-SYSTEM/UA TSO. The Offer Level takes into account the obligations to set aside capacity based on the calculation methodology described in Article 11 (6) of NC CAM.

The Offer Level can be marketed to network users no earlier than gas year 2030/2031 because of the project's specifics on the Polish side of the Polish-Ukrainian border.

Year	From 2030/2031 To 2044/2045
Offer Level	3 095 890 kWh/h
Incremental capacity – to be offered	3 095 890 kWh/h
Incremental capacity – total	3 869 863kWh/h
Existing Capacity	0

The incremental capacity auction shall take place on the GSA Platform³. Registration in both network operator's systems is required to participate in auctions on the GSA Platform.

b. Terms and Conditions for the incremental auction to be accepted by the network user acc. Art. 28 (1) lit. b NC CAM

For the marketing of incremental capacity (i.e. the Offer Level) in the yearly capacity auction 2023, GAZ-SYSTEM and GTSOU have developed individual terms and conditions for the incremental capacity auction to be accepted by the network user before the incremental capacity auction.

The terms and conditions of GAZ-SYSTEM as well as GTSOU for the auction of incremental capacity are annexed to this document.

³ <https://www.gsaplatform.eu/>

Regardless of the fact that both GAZ-SYSTEM and GTSOU publish terms and conditions for the incremental capacity auction in English and in their respective national languages, only the Polish and Ukrainian versions respectively, shall be considered as binding.

c. Timetables for the incremental project as well as the measures to avoid delays and reduce the impact of delays pursuant to Art. 28 (1) lit. c NC CAM

The following tables show the further steps and represent a rough schedule of the technical measures for both projects. Those plans already include time buffers to avoid delays in the provision of capacity.

The construction phase will only start if there is a commitment by network users to acquire the respective incremental capacities in the yearly auction 2023 and if the results of the following economic tests are also positive for GAZ-SYSTEM and GTSOU and also GAZ-SYSTEM together with GTSOU will conclude the agreement on implementation of the project.

For GAZ-SYSTEM

Time period	Milestone
03/07/2023	Yearly capacity auction in July followed by an economic test
3Q/2023	Concluding the agreement between GAZ-SYSTEM and GTSOU for implementation of the project
1Q/2024	Design contracts signed
4Q/2026	Building permits obtained
2Q/2027	Construction contracts signed
1Q/2030	Permit to use obtained
2Q/2030	Commissioning of the project

Time periods for signing contracts and obtaining building permits are indicated as the latest finished milestones, taking into account the three separate investment tasks in the common scope of the incremental project.

For GTSOU

Time period	Milestone
03/07/2023	Yearly capacity auction in July followed by an economic test
3Q/2023	Concluding the agreement between GTSOU and GAZ-SYSTEM for implementation of the project
2025	Designing ("Project" stage)
2026	Approval of project decisions, expertise
2026-2028	Execution of works
4Q/2028	Commissioning of the project

The timeframes of work completion may be updated due to existing uncertainty related Russia's full-scale war with Ukraine.

d. Parameter acc. Art. 28 (1) lit. d NC CAM

For GAZ-SYSTEM

i. Parameter acc. Art. 22 (1) lit. a NC CAM

Auction Premium:

The algorithm for multi-level ascending price auctions pursuant to Art. 17 NC CAM applies to the auction of incremental capacities pursuant to Art. 29 (1) NC CAM. This may result in an auction premium, which will only be determined at the end of the 2023 annual auction. For this reason, it was not taken into account in the calculation of the f-factor, but must be included in the economic test.

Mandatory minimum premium:

In accordance with decision DRR.WRG.745.6.2022.MJS mandatory minimum premium of 2.684 PLN/(MWh/h)/h 0,559 EUR/(MWh/h)/h was approved.

Net present value of binding commitments of network users:

The target value of the estimated increase in allowed revenues corresponds to the value of the investment funds cost concerning the project implemented by the transmission system operator and settled in the period covering the contracted incremental capacity made available as part of offers submitted in the auction procedure for GCP GAZ-SYSTEM/UA TSO.

GAZ-SYSTEM adopted a discount rate of 4,81% for the calculation of the discounted value of the allowed revenue related to the realization of the project for the market border of Poland and Ukrainian in the years 2030-2045. The discounted value of network users' liabilities at the Poland - Ukrainian point, with a discount rate of 4.81% for the 15-year test period, amounts to 1.083.415 thousand PLN.

The discount rate used in the calculation (4.81%) was determined at the weighted cost of capital (WACC) adopted for the Tariff No. 16 Change No. 1 for gaseous fuels transmission for 2023. This value was determined using the calculation tool provided by GAZ-SYSTEM, which reflects the current practice, including the calculation parameters for determining the allowed revenues approved by the President of the URE for the tariff for 2023.

ii. Parameter acc. Art. 22 (1) lit. b NC CAM

In accordance with decision DRR.WRG.745.6.2022.MJS the discounted allowed revenues was determined and approved: 1.083.403 thousand PLN.

iii. f-Factor acc. Art. 22 (1) lit. c NC CAM

According to decision DRR.WRG.745.6.2022.MJS the following f-factor was determined and approved: 1

For GTSOU

i. Parameter acc. Art. 22 (1) lit. a NC CAM

Auction Premium:

The algorithm for multi-level ascending price auctions pursuant to Art. 17 NC CAM applies to the auction of incremental capacities pursuant to Art. 29 (1) NC CAM. This may result in an auction premium, which will only be determined at the end of the 2023 annual auction. Auction premium must be included in the economic test.

Mandatory minimum premium:

In accordance with resolution № 799 issued on 28 April 2023 by NEURC, the mandatory minimum premium of USD 0.00 per 1000 cubic m/day was approved.

Net present value of binding commitments of network users:

The value of the expected increase in the allowed revenues corresponds to the value of investment costs for the project and is calculated for the period covering the contractual incremental capacity that is offered during the auction allocation of capacity for GCP GAZ-SYSTEM/UA TSO.

GTSOU accepted the discount rate of 6.10% to calculate the discounted value of the allowed revenues related to the implementation of the project and supply on the capacity market on the border between Poland and Ukraine in 2030-2045.

The discount rate (6.10%) is determined as of February 2023 based on the interest rate on new loans in US dollars to non-financial corporations for a period of more than 5 years (Financial markets statistics "Interest rates on loans and deposits. Securities issued by residents. PFTS index" <https://bank.gov.ua/ua/statistic/sector-financial#2fs>).

ii. Parameter acc. Art. 22 (1) lit. b NC CAM

In accordance with resolution № 799 issued on 28 April 2023 by NEURC, the allowed revenues correspond to the value of investment costs for the project.

iii. f-Factor acc. Art. 22 (1) lit. c NC CAM

According to resolution № 799 issued on 28 April 2023 by NEURC, the following f-factor was determined and approved: 0.

e. Extension of the marketing period acc. Art. 28 (1) lit. e NC CAM

An extension of the marketing period is not applied for both TSOs.

f. Alternative allocation mechanism acc. Art. 28 (1) lit. f NC CAM

An alternative allocation mechanism is not applied for both TSOs



Publication acc. Art. 25 (2) NC CAM

Reference price acc. Art. 25 (1) NC CAM

For GAZ-SYSTEM S. A.

In accordance with decision DRR.WRG.745.6.2022.MJS the reference price used for the economic viability test for the incremental capacities to be offered from 1 October 2030 until 1 October 2045 is 2,532 PLN/(MWh/h)/h (0,528 EUR/(MWh/h)/h).

For GTSOU

In accordance with resolution № 799 issued on 28 April 2023 by NEURC, the reference price used for the economic viability test for the incremental capacities to be offered from 1 October 2030 until 1 October 2045 is 0.374 EUR/(MWh/h)/h without VAT.

III. Annexes

1. "General Terms and Conditions of participation in and access to capacity in the binding phase of incremental capacity auction on the border between Poland and Ukraine" (GAZ-SYSTEM);
2. "General Terms and Conditions to which network users shall agree in order to obtain access to capacity in the binding phase of capacity allocation of the incremental capacity procedure on the border between Ukraine and Poland" (GTSOU).



IV. Contact information



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